

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|------------------------------------|---|----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Village of Caledonia | County Kent |
| Fiscal Year End June 30, 2006 | Opinion Date September 21, 2006 | Date Audit Report Submitted to State December 27, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|-------------------------------------|---|-------------|-------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input checked="" type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | None reported | | |
| Other (Describe) | <input type="checkbox"/> | None | | |
| Certified Public Accountant (Firm Name) Rehmann Robson | | Telephone Number 616-975-4100 | | |
| Street Address 2330 East Paris Avenue SE | | City Grand Rapids | State MI | Zip 49546 |
| Authorizing CPA Signature  | | Printed Name Stephen W. Blann, CPA, CGFM | | License Number 24801 |

VILLAGE OF CALEDONIA



A Friendly, Growing Community

CALEDONIA, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006



REHMANN ROBSON

Certified Public Accountants

VILLAGE OF CALEDONIA

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 21, 2006

Honorable President and
Members of the Village Council
Village of Caledonia, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Caledonia, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Village of Caledonia, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Caledonia, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006, on our consideration of the Village of Caledonia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Caledonia's basic financial statements. The individual fund schedule is presented for purposes of additional analysis and is not a required part of the Village of Caledonia's basic financial statements. The individual schedule has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Management's Discussion and Analysis

As management of the Village of Caledonia, we offer readers of the Village of Caledonia's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The Village finished the 92nd street and Dobber-Wenger improvements.
- Purchase of DPW garage

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village of Caledonia's financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the Village of Caledonia that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government administration and public works including major and local street maintenance. The business-type activities of the Village include sewer services.

The government-wide financial statements can be found on pages 10-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Caledonia, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general, major streets, local streets, and debt service funds, each of which is considered to be a major fund.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 13-19 of this report.

Proprietary funds. The Village of Caledonia maintains one type of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village of Caledonia uses an enterprise fund to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-31 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Individual fund schedules can be found on pages 32-33 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village of Caledonia, assets exceeded liabilities by \$7,340,253 at the close of the most recent fiscal year.

A portion of the Village's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Caledonia Net Assets

| | Governmental activities | | Business-type activities | | Total | |
|-----------------------------------|------------------------------------|---------------------------|-------------------------------------|---------------------------|---------------------------|---------------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Current and other assets | \$ 798,180 | \$ 986,278 | \$ 904,128 | \$ 793,234 | \$1,602,308 | \$1,779,512 |
| Capital assets | 4,304,977 | 4,109,511 | 2,300,245 | 2,384,149 | 6,605,322 | 6,493,660 |
| Total assets | 5,103,157 | 5,095,789 | 3,204,373 | 3,177,383 | 8,307,630 | 8,273,172 |
| Long-term liabilities outstanding | - | - | 910,672 | 935,050 | 910,672 | 935,050 |
| Other liabilities | 32,065 | 53,950 | 24,641 | 43,521 | 56,706 | 97,471 |
| Total liabilities | 32,065 | 53,950 | 935,313 | 978,571 | 967,378 | 1,032,521 |
| Net assets: | | | | | | |
| Invested in capital assets, net | | | | | | |
| of related debt | 4,304,977 | 4,109,511 | 1,389,673 | 1,449,099 | 5,694,650 | 5,558,610 |
| Restricted | 413,084 | 334,486 | - | - | 413,084 | 334,486 |
| Unrestricted | 353,031 | 597,842 | 879,487 | 749,713 | 1,232,518 | 1,347,555 |
| Total net assets | <u>\$5,071,092</u> | <u>\$5,041,839</u> | <u>\$2,269,160</u> | <u>\$2,198,812</u> | <u>\$7,340,252</u> | <u>\$7,240,651</u> |

Net assets of the Village increased by \$29,253.

Village of Caledonia Changes in Net Assets

| | Governmental activities | | Business-type activities | | Total | |
|----------------------------------|------------------------------------|---------------------------|-------------------------------------|---------------------------|---------------------------|---------------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Revenue: | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 11,126 | \$ 8,261 | \$ 412,764 | \$ 320,487 | \$ 423,890 | \$ 328,748 |
| Capital grants and contributions | 18,750 | 256,498 | - | - | 18,750 | 256,498 |
| General revenue: | | | | | | |
| Property taxes | 244,845 | 226,591 | - | - | 244,845 | 226,591 |
| Other governmental sources | 212,589 | 173,211 | - | - | 212,589 | 173,211 |
| Other | 33,692 | 15,644 | 27,048 | 12,625 | 60,740 | 28,269 |
| Total revenue | <u>521,002</u> | <u>680,205</u> | <u>439,812</u> | <u>333,112</u> | <u>960,814</u> | <u>1,013,317</u> |
| Expenses: | | | | | | |
| General government | 237,280 | 184,094 | - | - | 237,280 | 184,094 |
| Public works | 254,468 | 186,878 | - | - | 254,468 | 186,878 |
| Sewer | - | - | 369,464 | 353,516 | 369,464 | 353,516 |
| Total expenses | <u>491,749</u> | <u>370,972</u> | <u>369,464</u> | <u>353,516</u> | <u>861,213</u> | <u>724,488</u> |
| Increase in net assets | 29,253 | 309,233 | 70,348 | (20,404) | 99,601 | 288,829 |
| Net assets - beginning of year | <u>5,041,839</u> | <u>4,732,606</u> | <u>2,198,812</u> | <u>2,219,216</u> | <u>7,240,651</u> | <u>6,951,822</u> |
| Net assets - end of year | <u>\$5,071,092</u> | <u>\$5,041,839</u> | <u>\$2,221,560</u> | <u>\$2,198,812</u> | <u>\$7,340,252</u> | <u>\$7,240,651</u> |

Governmental activities

During the year the Village continued its emphasis in public works by investing \$248,219 or 52% of governmental activities expenses. General government functions made up the remaining 48% of governmental activities expenses.

The governmental activities increase in net assets of \$29,253 is due primarily to growth in property tax value and the subsequent increase in revenues.

Business-type activities

Business-type activities increased the Village's net assets by \$70,348. By comparison, business-type activities reported a decrease in net assets the previous fiscal year of \$20,404. Key elements of this increase are as follows:

- Charges for services for business-type activities increased by 29 percent, or roughly \$92,000, compared to the prior year. This was due primarily to an increase in township user fees.
- Increased operating costs related to electrical charges and insurance.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$766,115 a decrease of \$166,213 in comparison with the prior year.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was \$353,031 which is equal to total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 60% percent of total general fund expenditures.

The fund balance of the Village's general fund decreased by \$244,811 during the current fiscal year due to expenditures for the DPW garage.

The major and local street funds have total fund balances of \$383,026 and \$29,949, respectively, which increased by \$51,304 and \$27,260, respectively, during the year. This was due to additional snow receipts from the State.

Proprietary funds. The Village's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer fund at the end of the year amounted to \$879,487. The sewer fund had a increase in net assets for the year of \$70,348. Other factors concerning the finances of this fund have already been addressed in the discussion of the Village's business-type activities.

General Fund Budgetary Highlights

The only significant difference between the original and final amended budgets for expenditures was due to amendments for the purchase of the DPW garage.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounted to \$6,605,322 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment.

Major capital asset additions include:

- DPW garage purchase

Village of Caledonia Capital Assets (net of depreciation)

| | Governmental activities | | Business-type activities | | Total | |
|-----------------------------------|------------------------------------|---------------------------|-------------------------------------|---------------------------|---------------------------|---------------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Land | \$3,487,649 | \$3,487,649 | \$ 108,268 | \$ 108,268 | \$3,595,917 | \$3,595,917 |
| Buildings and system improvements | 782,075 | 562,213 | 2,169,599 | 2,243,008 | 2,951,674 | 2,805,221 |
| Vehicles and equipment | 35,253 | 59,649 | 22,478 | 32,873 | 57,731 | 92,522 |
| Total | <u>\$4,304,977</u> | <u>\$4,109,511</u> | <u>\$2,300,345</u> | <u>\$2,384,149</u> | <u>\$6,605,322</u> | <u>\$6,493,660</u> |

Additional information on the Village of Caledonia capital assets can be found in Note 4 on pages 29-30 of this report.

Long-term debt. At the end of the current fiscal year, the Village had total debt outstanding (net of unamortized discount) of \$910,672 as follows:

General Obligation and Revenue Bonds

| | Business-type activities | |
|--|-------------------------------------|--------------------|
| | <u>2006</u> | <u>2005</u> |
| Bonds, net of unamortized discount (\$9,328) | <u>\$910,672</u> | <u>\$935,050</u> |

The Village's total debt decreased by \$24,378 during the current fiscal year.

The Village is currently not rated for general obligation bond issuance.

Additional information on the Village's long-term debt can be found in Note 5 on page 31 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2006-07 fiscal year:

- Increased employee wages cost of 3%.
- No change in property tax revenue due to similar housing development rates from prior year.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, 250 South Maple St., SE, Caledonia, Michigan 49316.

VILLAGE OF CALEDONIA

Statement of Net Assets

June 30, 2006

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 780,840 | \$ 552,742 | \$ 1,333,582 |
| Receivables: | | | |
| Accounts | - | 51,271 | 51,271 |
| Taxes | 2,113 | - | 2,113 |
| Due from state | 15,227 | - | 15,227 |
| Restricted cash and cash equivalents | - | 300,115 | 300,115 |
| Land | 3,487,649 | 108,268 | 3,595,917 |
| Property and equipment, net of accumulated depreciation | 817,328 | 2,192,077 | 3,009,405 |
| Total assets | <u>5,103,157</u> | <u>3,204,473</u> | <u>8,307,630</u> |
| Liabilities | | | |
| Accounts payable | 29,952 | 24,641 | 54,593 |
| Unearned revenue | 2,113 | - | 2,113 |
| Noncurrent liabilities: | | | |
| Unamortized discount | - | (9,328) | (9,328) |
| Due within one year | - | 25,000 | 25,000 |
| Due in more than one year | - | 895,000 | 895,000 |
| Total liabilities | <u>32,065</u> | <u>935,313</u> | <u>967,378</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 4,304,977 | 1,389,673 | 5,694,650 |
| Restricted for: | | | |
| Major streets | 383,026 | - | 383,026 |
| Local streets | 29,949 | - | 29,949 |
| Debt service | 109 | - | 109 |
| Unrestricted | 353,031 | 879,487 | 1,232,518 |
| Total net assets | <u>\$ 5,071,092</u> | <u>\$ 2,269,160</u> | <u>\$ 7,340,252</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Statement of Activities

For the Year Ended June 30, 2006

| <u>Functions / Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue</u> |
|-------------------------------|-----------------|---------------------------------|---|---|
| | | <u>Charges For Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary government | | | | |
| Governmental activities: | | | | |
| General government | \$ 243,530 | \$ 6,749 | \$ - | \$ 18,750 |
| Public works | 248,219 | 4,377 | - | - |
| Total governmental activities | 491,749 | 11,126 | - | 18,750 |
| Business-type activities: | | | | |
| Sewer | 369,464 | 412,764 | - | - |
| Total primary government | \$ 861,213 | \$ 423,890 | \$ - | \$ 18,750 |

(Continued)

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Statement of Activities (Concluded)

For the Year Ended June 30, 2006

| <u>Functions / Programs</u> | <u>Primary Government</u> | | |
|----------------------------------|------------------------------------|-------------------------------------|---------------------|
| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| Changes in net assets | | | |
| Net (expense) revenue | \$ (461,873) | \$ 43,300 | \$ (418,573) |
| General revenues: | | | |
| Property taxes | 244,845 | - | 244,845 |
| State shared revenue | 212,589 | - | 212,589 |
| Unrestricted investment earnings | 33,692 | 27,048 | 60,740 |
| Total general revenues | 491,126 | 27,048 | 518,174 |
| Change in net assets | 29,253 | 70,348 | 99,601 |
| Net assets, beginning of year | 5,041,839 | 2,198,812 | 7,240,651 |
| Net assets, end of year | <u>\$ 5,071,092</u> | <u>\$ 2,269,160</u> | <u>\$ 7,340,252</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Balance Sheet Governmental Funds

June 30, 2006

| | <u>General Fund</u> | <u>Major Streets</u> | <u>Local Streets</u> | <u>Debt Service</u> | <u>Total</u> |
|--|-------------------------|--------------------------|--------------------------|-------------------------|-------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 379,355 | \$ 374,698 | \$ 26,678 | \$ 109 | \$ 780,840 |
| Receivables: | | | | | |
| Taxes receivable | - | 10,828 | 4,399 | - | 15,227 |
| Due from other governments | 2,113 | - | - | - | 2,113 |
| Total assets | <u>\$ 381,468</u> | <u>\$ 385,526</u> | <u>\$ 31,077</u> | <u>\$ 109</u> | <u>\$ 798,180</u> |
| Liabilities | | | | | |
| Accounts payable | \$ 26,324 | \$ 2,500 | \$ 1,128 | \$ - | \$ 29,952 |
| Deferred revenue | 2,113 | - | - | - | 2,113 |
| Total liabilities | 28,437 | 2,500 | 1,128 | - | 32,065 |
| Fund balances | | | | | |
| Unreserved- undesignated | 353,031 | 383,026 | 29,949 | 109 | 766,115 |
| Total liabilities and fund balances | <u>\$ 381,468</u> | <u>\$ 385,526</u> | <u>\$ 31,077</u> | <u>\$ 109</u> | <u>\$ 798,180</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2006

| | |
|--|------------|
| Fund balances - total governmental funds | \$ 766,115 |
|--|------------|

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources,
and therefore are not reported in the funds.

| | |
|--|----------------|
| Add - land | 3,487,649 |
| Add - capital assets net of accumulated depreciation | <u>817,328</u> |

| | |
|---------------------------------------|----------------------------|
| Net assets of governmental activities | <u><u>\$ 5,071,092</u></u> |
|---------------------------------------|----------------------------|

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2006

| | General Fund | Major Streets | Local Streets | Debt Service | Total Governmental Funds |
|------------------------------------|-------------------|-------------------|------------------|-----------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 244,845 | \$ - | \$ - | \$ - | \$ 244,845 |
| Intergovernmental revenue | 78,836 | 83,359 | 50,394 | - | 212,589 |
| Licenses and permits | 4,377 | - | - | - | 4,377 |
| Interest earnings | 13,153 | 12,799 | 8,236 | 4 | 34,192 |
| Other | 6,249 | - | - | - | 6,249 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 347,460 | 96,158 | 58,630 | 4 | 502,252 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Expenditures | | | | | |
| General government | 229,444 | - | - | - | 229,444 |
| Public works | 362,827 | 44,854 | 31,340 | - | 439,021 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | 592,271 | 44,854 | 31,340 | - | 668,465 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Revenues over (under) expenditures | (244,811) | 51,304 | 27,290 | 4 | (166,213) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund balances, beginning of year | 597,842 | 331,722 | 2,659 | 105 | 932,328 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund balances, end of year | <u>\$ 353,031</u> | <u>\$ 383,026</u> | <u>\$ 29,949</u> | <u>\$ 109</u> | <u>\$ 766,115</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2006

| | |
|--|--------------|
| Net change in fund balances - total governmental funds | \$ (166,213) |
|--|--------------|

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

| | |
|---|-------------------------|
| Add - capital outlay | 225,213 |
| Deduct - depreciation expense | <u>(29,747)</u> |
| Change in net assets of governmental activities | <u><u>\$ 29,253</u></u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

General Fund Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|-----------------------------------|--------------------------|--------------------------|--------------------------|----------------------------------|
| Revenues | | | | |
| Taxes | \$ 226,165 | \$ 242,621 | \$ 244,845 | \$ 2,224 |
| Licenses and permits | 2,500 | 2,800 | 4,377 | 1,577 |
| Intergovernmental revenue | 87,965 | 83,821 | 78,836 | (4,985) |
| Interest earnings | 6,546 | 7,347 | 13,153 | 5,806 |
| Miscellaneous revenues | 3,900 | 3,700 | 6,249 | 2,549 |
| | <u>327,076</u> | <u>340,289</u> | <u>347,460</u> | <u>7,171</u> |
| Expenditures | | | | |
| General government | 200,477 | 215,506 | 229,444 | 13,938 |
| Public works | 207,660 | 382,587 | 362,827 | (19,760) |
| | <u>408,137</u> | <u>598,093</u> | <u>592,271</u> | <u>(5,822)</u> |
| Net change in fund balances | (81,061) | (257,804) | (244,811) | 12,993 |
| Fund balances, beginning of year | <u>597,842</u> | <u>597,842</u> | <u>597,842</u> | <u>-</u> |
| Fund balances, end of year | <u><u>\$ 516,781</u></u> | <u><u>\$ 340,038</u></u> | <u><u>\$ 353,031</u></u> | <u><u>\$ 12,993</u></u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Major Streets Special Revenue Fund

For the Year Ended June 30, 2006

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance With Final Budget</u> |
|-----------------------------------|----------------------------|--------------------------|--------------------------|---|
| Revenues | | | | |
| Intergovernmental revenue | \$ 49,622 | \$ 50,261 | \$ 83,359 | \$ 33,098 |
| Interest earnings | 4,320 | 4,574 | 12,799 | 8,225 |
| | <u>53,942</u> | <u>54,835</u> | <u>96,158</u> | <u>41,323</u> |
| Expenditures | | | | |
| Public works: | | | | |
| Routine maintenance | 24,700 | 21,950 | 17,969 | (3,981) |
| Winter maintenance | 18,624 | 19,330 | 15,877 | (3,453) |
| Capital outlay | 132,017 | 132,017 | 11,008 | (121,009) |
| | <u>175,341</u> | <u>173,297</u> | <u>44,854</u> | <u>(128,443)</u> |
| Net change in fund balances | (121,399) | (118,462) | 51,304 | 169,766 |
| Fund balances, beginning of year | <u>331,722</u> | <u>331,722</u> | <u>331,722</u> | <u>-</u> |
| Fund balances, end of year | <u><u>\$ 210,323</u></u> | <u><u>\$ 213,260</u></u> | <u><u>\$ 383,026</u></u> | <u><u>\$ 169,766</u></u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Local Streets Special Revenue Fund

For the Year Ended June 30, 2006

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|----------------------------|-------------------------|------------------|---|
| Revenues | | | | |
| Intergovernmental revenue | \$ 23,457 | \$ 31,180 | \$ 50,394 | \$ 19,214 |
| Interest and rentals | 700 | 120 | 8,236 | 8,116 |
| Total revenues | 24,157 | 31,300 | 58,630 | 27,330 |
| Expenditures | | | | |
| Public works: | | | | |
| Routine maintenance | 5,000 | 4,950 | 5,271 | (321) |
| Winter maintenance | 22,142 | 39,630 | 26,069 | 13,561 |
| Total expenditures | 27,142 | 44,580 | 31,340 | 13,240 |
| Net change in fund balances | (2,985) | (13,280) | 27,290 | 40,570 |
| Fund balances, beginning of year | 2,659 | 2,659 | 2,659 | - |
| Fund balances (deficit), end of year | \$ (326) | \$ (10,621) | \$ 29,949 | \$ 40,570 |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Statement of Net Assets Proprietary Fund

June 30, 2006

| | Sewer Enterprise Fund |
|---|--------------------------------------|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 552,742 |
| Accounts receivable | 51,271 |
| Restricted cash and cash equivalents | <u>300,115</u> |
| Total current assets | 904,128 |
| Capital assets | <u>2,300,345</u> |
| Total assets | <u>3,204,473</u> |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 24,641 |
| Bond payable, current portion | <u>25,000</u> |
| Total current liabilities | 49,641 |
| Long-term liabilities: | |
| Bonds payable, net of unamortized discount of \$9,950 | <u>885,672</u> |
| Total liabilities | <u>935,313</u> |
| Net assets | |
| Invested in capital assets, net of related debt | 1,389,673 |
| Unrestricted | <u>879,487</u> |
| Total net assets | <u><u>\$ 2,269,160</u></u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Statement of Revenues, Expenses and Changes in Net Assets Proprietary Fund

For the Year Ended June 30, 2006

| | Sewer Enterprise Fund |
|---|--------------------------------------|
| Operating revenues | |
| Charges for services | <u>\$ 412,716</u> |
| Operating expenses | |
| Supplies and administration | 215,555 |
| Repairs and maintenance | 30,038 |
| Depreciation | <u>83,804</u> |
| Total operating expenses | <u>329,397</u> |
| Operating income | <u>83,319</u> |
| Nonoperating revenues (expenses) | |
| Gain on investments | 27,048 |
| Interest expense | <u>(40,019)</u> |
| Total nonoperating revenues (expenses) | <u>(12,971)</u> |
| Change in net assets | 70,348 |
| Net assets, beginning of year | <u>2,198,812</u> |
| Net assets, end of year | <u><u>\$ 2,269,160</u></u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA

Statement of Cash Flows Proprietary Fund

For the Year Ended June 30, 2006

| | Sewer Enterprise Fund |
|--|--------------------------------------|
| Cash flows from operating activities | |
| Cash received from customers | \$ 432,210 |
| Cash payments to suppliers and employees for goods and services | (264,473) |
| | <u>167,737</u> |
| Cash flows from capital and related financing activities | |
| Interest and fiscal charges paid on bonds payable | (39,397) |
| Principal payments on bonds payable | (25,000) |
| | <u>(64,397)</u> |
| Cash flows from investing activities | |
| Gain on investments | 27,048 |
| | <u>27,048</u> |
| Net increase in cash and cash equivalents | 130,388 |
| Cash and cash equivalents, beginning of year | 722,469 |
| Cash and cash equivalents, end of year | <u><u>\$ 852,857</u></u> |
| Reconciliation to the statement of net assets: | |
| Cash and cash equivalents | \$ 552,742 |
| Restricted cash and cash equivalents | 300,115 |
| | <u><u>\$ 852,857</u></u> |
| Cash flows from operating activities | |
| Operating income | \$ 83,319 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 83,804 |
| Increase (decrease) in: | |
| Accounts receivable | 19,494 |
| Accounts payable | (18,880) |
| | <u>(18,880)</u> |
| Net cash provided by operating activities | <u><u>\$ 167,737</u></u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CALEDONIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Caledonia (the “Village”) is a municipal corporation governed by an elected board.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the Village and any related entities for which the Village is considered to be financially accountable. The Village follows the criteria established by GASB 14 and 39, which includes financial accountability. There are currently no other entities for which the Village is financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After October 1 of each year, the County pays the Village, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and debt service expenditures are recorded only when payment is due.

VILLAGE OF CALEDONIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the Village.

The *Local Streets Fund* is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the Village.

The *Debt Service Fund* is used to account for the accumulation of resources which are restricted for the payment of principal and interest on general obligation bonds. There are currently no such bonds outstanding.

The Village reports the following major proprietary fund:

The *Sewer Enterprise Fund* is used to account for the operations of the Village's sewer department that provides sewer services to most residents of the Village on a user charge basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF CALEDONIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Budgets and Budgetary Accounting

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. Budgetary control is exercised at the department level. The Village manager is authorized to transfer budget amounts between line items within department, however, any supplemental appropriations that amend total expenditures of any department require Village Council resolution. Unexpended appropriations lapse at year-end.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Village considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Cash and Cash Equivalents

Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted cash and cash equivalents on the statement of net assets because their use is limited by applicable bond covenants.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances are immaterial at year end.

Deferred Revenue

The Village reports deferred revenue when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Amounts received before being earned are reported as “unearned revenue”.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditures or legally separated for a specific future use.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

VILLAGE OF CALEDONIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|--------------|--------------|
| Buildings | 40 |
| Vehicles | 12 |
| Equipment | 3-10 |
| Sewer System | 15-50 |

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other expenditures.

Compensated Absences

There is no accumulated vacation or sick leave to be recognized.

Property Taxes

The Village property tax is levied each July 1 on the assessed valuation of property located in the Village as of the preceding July 31, the lien date. Collections are made July 1 through September 14. Assessed values are established annually by the County and are equalized by the State at an estimated 50% of current market value.

Property taxes levied in July of each year are recognized as revenue in that year.

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the Village carried commercial insurance to cover most risks of losses. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted on the activity level in the General Fund and the function level in other funds.

During the year ended June 30, 2006, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

| | <u>Total Appropriations</u> | <u>Amount of Expenditures</u> | <u>Budget Variance</u> |
|-------------------------|---------------------------------|-----------------------------------|----------------------------|
| General Fund - | | | |
| Village Council General | \$ 145,543 | \$ 184,597 | \$ 39,054 |
| Clerk | 22,485 | 22,726 | 241 |
| Local Street Fund - | | | |
| Routine Maintenance | 4,950 | 5,271 | 321 |

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The captions on the statement of net assets relating to cash and cash equivalents and the amounts in the Total column are as follows:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--------------------------------------|------------------------------------|-------------------------------------|---------------------------|
| Cash and cash equivalents | \$780,840 | \$552,742 | \$1,333,582 |
| Restricted cash and cash equivalents | - | 300,115 | 300,115 |
| | <u>\$780,480</u> | <u>\$852,857</u> | <u>\$1,633,697</u> |

Cash and cash equivalents and investments are comprised of the following at year-end:

| | |
|-------------------------------|---------------------------|
| Checking and savings accounts | \$ 904,725 |
| Certificates of deposit | 117,332 |
| Investments | 611,640 |
| | <u>\$1,633,697</u> |

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year-end, \$1,334,002 of the Village's bank balance of \$1,634,002 was exposed to custodial credit risk because it was uninsured and uncollateralized.

These deposits are in two (2) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Village and a specific fund or common account. They are recorded in Village records at cost. Interest is recorded when earned.

The Village chooses to disclose its investments by specifically identifying each. As of year-end, the Village had the following investments:

Investments

| | <u>Maturity</u> | <u>Fair Value</u> | <u>Rating</u> |
|-----------------------------|------------------------|--------------------------|----------------------|
| Kent County Investment Pool | N/A | \$611,640 | Unrated |

The above investments do not include certificates of deposit which are classified as investments for financial statement purposes as their original maturity date is greater than three months.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" below. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Village's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" below. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

Custodial Credit Risk-Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Village does not have a policy for the investment custodial risk. At year-end, the Village was not exposed to custodial credit risk, as all investments are held in the name of the Village.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Statutory Authority

Act 217, PA 1982, authorizes the Village to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools are authorized by Public Act 20 as amended through December 31, 1997.

The Village's investment policy does not exceed the state's limited authorized investment types.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

| | Balance | | | Balance |
|---|----------------------|------------------|---------------------|----------------------|
| | June 30, 2005 | Additions | Dispositions | June 30, 2006 |
| Governmental activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$3,487,649 | \$ - | \$ - | \$3,487,649 |
| Capital assets, being depreciated: | | | | |
| Buildings | 115,000 | 201,112 | - | 316,112 |
| Equipment | 37,760 | - | - | 37,760 |
| Office equipment | 14,849 | - | - | 14,849 |
| Vehicles | 121,497 | - | - | 121,497 |
| Infrastructure | 498,192 | 18,750 | - | 516,942 |
| Total capital assets, being depreciated | 787,298 | 219,862 | - | 1,007,160 |

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

| | Balance June 30, 2005 | Additions | Dispositions | Balance June 30, 2006 |
|--|--------------------------|------------------|--------------|--------------------------|
| Less accumulated depreciation for: | | | | |
| Buildings | \$ 44,125 | \$ 7,653 | \$ - | \$ 51,778 |
| Equipment | 22,912 | 3,321 | - | 26,233 |
| Office equipment | 14,849 | - | - | 14,849 |
| Vehicles | 70,846 | 8,434 | - | 79,280 |
| Infrastructure | 7,353 | 10,339 | - | 17,692 |
| Total accumulated depreciation | 160,085 | 29,747 | - | 189,832 |
| Net capital assets, being depreciated | 627,210 | 190,118 | - | 817,328 |
| Net governmental activities capital assets | \$4,114,859 | \$190,118 | \$ - | \$4,304,977 |
| Business-type activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 108,268 | \$ - | \$ - | \$ 108,268 |
| Capital assets, being depreciated: | | | | |
| Equipment | 116,455 | - | - | 116,455 |
| Sewer system | 3,240,352 | - | - | 3,240,352 |
| Total capital assets, being depreciated | 3,356,807 | - | - | 3,356,807 |
| Less accumulated depreciation for: | | | | |
| Equipment | 83,582 | 10,395 | - | 93,977 |
| Sewer system | 997,344 | 73,409 | - | 1,070,753 |
| Total accumulated depreciation | 1,080,926 | 83,804 | - | 1,164,730 |
| Net capital assets, being depreciated | 2,275,881 | 83,804 | - | 2,192,077 |
| Net business-type activities capital assets | \$2,384,149 | \$ 83,804 | \$ - | \$2,300,345 |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|-----------------|
| Governmental activities: | |
| General government | \$22,609 |
| Public works | 7,138 |
| Total depreciation expense – governmental activities | \$29,747 |
| Business-type activities: | |
| Sewer | \$83,804 |

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

5. LONG-TERM DEBT

The following is a summary of debt transactions of the Village for the year ended June 30, 2006:

| | <u>Balance</u> <u>June 30, 2005</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2006</u> | <u>Due</u> <u>Within</u> <u>One Year</u> |
|---|--|------------------|------------------|--|--|
| Enterprise Fund Debt | | | | | |
| \$995,000 Sanitary Sewage System | | | | | |
| Revenue Bonds, Series 2001; due in annual | | | | | |
| installments ranging from \$25,000 to | | | | | |
| \$80,000 from September 1, 2003 through | | | | | |
| September 1, 2021; interest at 4.8% to 5.5% | <u>\$945,000</u> | <u>\$ -</u> | <u>\$25,000</u> | <u>\$920,000</u> | <u>\$25,000</u> |

The annual requirements to amortize all debt outstanding as of June 30, 2006 are as follows:

| <u>Year Ending</u> <u>June 30</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|-------------------------|-------------------------|
| 2007 | \$ 25,000 | \$ 46,822 |
| 2008 | 25,000 | 45,622 |
| 2009 | 50,000 | 43,822 |
| 2010 | 50,000 | 41,422 |
| 2011 | 50,000 | 39,022 |
| 2012-2016 | 250,000 | 157,987 |
| 2017-2021 | 365,000 | 70,040 |
| 2022 | 105,000 | 2,200 |
| Total | <u>\$920,000</u> | <u>\$446,937</u> |

6. RETIREMENT PLAN

The Village may make annual contributions to employee retirement accounts. Plan provisions and contribution requirements are established and may be amended by the Village Board. The contribution by the Village is determined annually by the Village Board and may be any amount up to 5% of individuals' compensation. For the year ended June 30, 2006, the Village contributed \$7,173.

VILLAGE OF CALEDONIA

General Fund Schedule of Expenditures - Budget and Actual

For the Year Ended June 30, 2006

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance With Final Budget</u> |
|-------------------------------------|----------------------------|-------------------------|-----------------------|---|
| General government | | | | |
| Village Council - General | | | | |
| Salaries and wages | \$ 36,298 | \$ 38,175 | \$ 39,047 | \$ 872 |
| Audit | 8,300 | 6,000 | 5,350 | (650) |
| Insurance | 19,180 | 18,440 | 7,690 | (10,750) |
| Legal | 30,000 | 30,000 | 89,406 | 59,406 |
| Engineering | 15,000 | 17,478 | 15,910 | (1,568) |
| Utilities | 13,000 | 13,600 | 14,507 | 907 |
| Office supplies | 7,300 | 5,350 | 3,748 | (1,602) |
| Memberships and dues | 1,200 | 1,300 | 950 | (350) |
| Printing and publishing | 1,600 | 1,700 | 1,863 | 163 |
| Education and mileage | 800 | 500 | 478 | (22) |
| Capital outlay | 2,500 | 3,500 | 1,736 | (1,764) |
| Miscellaneous | 8,500 | 9,500 | 3,912 | (5,588) |
| | <u>143,678</u> | <u>145,543</u> | <u>184,597</u> | <u>39,054</u> |
| Total village council - general | | | | |
| President | | | | |
| Salaries and wages | 4,495 | 5,445 | 3,994 | (1,451) |
| | <u>400</u> | <u>500</u> | <u>76</u> | <u>(424)</u> |
| Elections | | | | |
| Trustee | | | | |
| Salaries and wages | 8,786 | 9,390 | 7,338 | (2,052) |
| Clerk | | | | |
| Salaries and wages | 21,360 | 19,735 | 20,895 | 1,160 |
| Office supplies | 1,450 | 2,750 | 1,831 | (919) |
| | <u>22,810</u> | <u>22,485</u> | <u>22,726</u> | <u>241</u> |
| Total clerk | | | | |
| Treasurer | | | | |
| Salaries and wages | 2,718 | 2,728 | 1,568 | (1,160) |
| Office supplies | 100 | 50 | 10 | (40) |
| Miscellaneous | 1,950 | 1,650 | 612 | (1,038) |
| | <u>4,768</u> | <u>4,428</u> | <u>2,190</u> | <u>(2,238)</u> |
| Total treasurer | | | | |
| Planning and zoning | | | | |
| Salaries and wages | 3,465 | 5,415 | 1,360 | (4,055) |
| Engineering | 12,075 | 22,300 | 7,163 | (15,137) |
| | <u>15,540</u> | <u>27,715</u> | <u>8,523</u> | <u>(19,192)</u> |
| Total planning and zoning | | | | |
| Total general government | <u>200,477</u> | <u>215,506</u> | <u>229,444</u> | <u>13,938</u> |

VILLAGE OF CALEDONIA

General Fund Schedule of Expenditures - Budget and Actual (Continued)

For the Year Ended June 30, 2006

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance - With Final Budget</u> |
|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---|
| Public works | | | | |
| Salaries and wages | \$ 32,200 | \$ 30,200 | \$ 35,658 | \$ 5,458 |
| Insurance | 10,300 | 9,475 | 8,386 | (1,089) |
| Operating supplies | 1,500 | 1,000 | 2,715 | 1,715 |
| Telephone - pager | 700 | 850 | 376 | (474) |
| Truck expense | 5,200 | 8,900 | 5,876 | (3,024) |
| Tree program | 9,500 | 9,000 | 9,405 | 405 |
| Street lights | 15,550 | 16,550 | 16,368 | (182) |
| Christmas lights | 2,000 | 1,700 | 1,784 | 84 |
| Miscellaneous | 6,800 | 3,800 | 6,168 | 2,368 |
| Contracted services | 10,500 | 10,000 | 10,033 | 33 |
| Capital outlay | <u>113,410</u> | <u>291,112</u> | <u>266,058</u> | <u>(25,054)</u> |
| Total public works | <u>207,660</u> | <u>382,587</u> | <u>362,827</u> | <u>(19,760)</u> |
| Total expenditures | <u><u>\$ 408,137</u></u> | <u><u>\$ 598,093</u></u> | <u><u>\$ 592,271</u></u> | <u><u>\$ (5,822)</u></u> |



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 21, 2006

Honorable President and
Members of the Village Council
Village of Caledonia, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Caledonia, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Caledonia, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Caledonia, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Village Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.